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OIL AND GAS PERFORMANCE REVIEW

INCENTIVES TEAM

FINAL REPORT

March 14, 1995

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MANAGEMENT OIL AND
GAS PERFORMANCE
REVIEW INCENTIVES

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EXECUTIVE SUMMARY

Late in 1993, the Bureau of Land Management (BLM) initiated an agency-wide performance review of its oil and gas program. The input from a series of nationwide scoping meetings indicated that "Incentives" was one of the four main topic areas that were of most interest. The BLM established an Incentives Team comprised of personnel from BLM, MMS, DOE, Office of the Solicitor, and USFS. The Team was charged with developing and recommending incentives for industry operating on Federal lands to: (1) increase gas production; (2) reduce the decline in oil production; (3) improve performance in environmental protection, contribute to improving the health of ecosystems; (4) encourage the conservation of oil and gas resources; (5) perform remedial action on "orphan wells", and, (6) to enhance technology transfer in the above areas. The Team reviewed the scoping comments, developed proposed incentives, distributed them for review and comment by our external partners and customers, and held an Outreach Forum in Denver to receive comments. The Team then analyzed the comments and proposals in the context of protecting the public interest, potential impact to the States, relative benefits and workload, and are recommending the following actions:

Immediately Issue Policy Guidance to Initiate the following -

* 1 year Royalty Relief for Enhanced Oil Recovery Projects
* 1 year Royalty Relief for Wildcat and High Cost Drilling
* Pilot an Environmental Compliance Self-Certification Program
* Reinstitute Policy on Approval of Development Contracts
* Hold Local Industry and Interagency Technology Transfer Forums
* Broaden Use of Bioremediation for Small Spills

Propose Rulemaking Changes to Accomplish the Following -

* Significantly Streamline Unitization Application Process
* Eliminate Duplication States on Communitization Application

Evaluate these Proposals Further -

* Royalty Rate Reduction for High Water Cut Wells
* Eliminate Minimum Royalty for Stripper Wells
* Concept of Ecocredits for Voluntary Environmental Enhancement

The Team determined through analysis of outreach comments, internal discussion and coordination with the other Teams that several proposed incentives should be transferred to the other Teams for consideration in the second phase of their efforts. In addition, other proposed incentives are not recommended for further action or implementation. The Team determined that the workload and cost to implementing these proposed incentives was not justified by the expected benefits to the Federal Government, the industry or our external partners, and customers.

INCENTIVES TEAM REPORT

INTRODUCTION

Late in 1993, the Bureau of Land Management (BLM) initiated an agency-wide performance review of its oil and gas program. A series of scoping meetings were held at various locations throughout the country in December of 1993 and February of 1994 to gather information from our publics on how we can improve our performance in managing oil and gas resources on Federal lands. The input from those sessions indicated that "incentives" was one of the four main topic areas that were of most interest. The BLM established interagency and interdepartmental teams to evaluate the comments and suggestions for each of the four main subject areas and determine specific actions the government should take.

The Incentives Team was charged with developing and recommending incentives for industry operating on Federal lands to: (1) increase gas production; (2) reduce the decline in oil production; (3) improve performance in environmental protection, contribute to improving the health of ecosystems; (4) encourage the conservation of oil and gas resources, perform remedial action on "orphan wells", and (5) to enhance technology transfer in the above areas. The Incentives Team members included the following personnel:

Douglas Koza, BLM, Salt Lake City, Utah - Team Leader
Renee Gyles, MMS, Washington, DC
John Bebout, BLM, Washington, DC
John Pyrdol, DOE, Washington, DC
Sherry Barnett, Tulsa, Oklahoma
Darryl Watts, BLM, Cheyenne, Wyoming
George Diwachak, BLM, Salt Lake City, Utah
Sam Kalen, Office of the Solicitor, Washington, DC
Barry Burkhardt, USFS, Ogden, Utah

INTERNAL PROCESS

Analyze Scoping Input

The first step in the process, utilized by the Incentives Team, consisted of evaluating the input already received from our customers. In August 1994, six subteams (Subteam personnel listed in Attachment A), were established to more effectively evaluate proposed incentives. The following outlines the objectives of the subteams and indicates the subteam leaders:

***Production**: Increase the ultimate recovery of oil and gas through economic incentives. Renee Gyles, MMS*

***Conservation**: Prevention of waste or premature abandonment and encouragement of orderly development, specifically looking at the following Bureau programs: venting and flaring, agreements, drainage and diligence. Sherry Barnett, BLM*

Technology Transfer: ***Exchange of information and technologies between those who have it and those who need it. John Pyrdol, DOE***

Environmental: ***Facilitate oil and gas development/production and economics while encouraging ecosystem health, environmental protection and compliance. George Diwachak, BLM***

Exploration/Drilling: ***Increasing the domestic reserves of oil and gas through exploration and drilling. Darryl Watts, BLM***

Orphan Wells: ***Reduce the number of orphan wells, current and future, and thereby eliminate the Federal Government's unfunded liabilities for abandoned oil and gas operation. John Bebout, BLM***

BLM/DOE Data Base

Preliminary review of the scoping session input indicated that one of the main incentives proposed by industry was royalty relief. The Team recognized that because of the potential revenue impacts, any such proposal would undergo close review at all levels in the Federal Government and by State governments. Careful analysis of those potential revenue impacts would be critical for management decisions. As a result, the Department of Energy (DOE) was asked to assist BLM in assessing the impacts of various royalty relief proposals by using their suite of computer-based oil models to provide quantitative assessments of impacts on operators and royalty collections.

DOE has three oil models that were used in these analyses. Those three models are:

- TORIS - Tertiary Oil Recovery Information System,
- REPCO - Replacement Cost of Crude Oil Model, and
- COPM - Crude Oil Policy Model

These are expected to analyze the effects of varying royalty relief proposals on existing and potential new oil operations on Federal leases. The models project production, estimate operating costs, and determine the economic limit for each lease on BLM lands.

BLM/DOE Data Collections

After learning the capabilities of the DOE models, the Team determined to undertake a data collection effort of BLM reservoir data to supplement the existing data in the models to enable DOE to focus its analyses solely on oil operators on Federal lands.

This data collection effort was coordinated by BLM's Washington headquarters office, and involved BLM field offices in eight States covering virtually all oil production on BLM lands.

Specific data collected were:

- The percent of production on Federal lands on a reservoir-by-reservoir basis.
- Fraction of reservoirs with enhanced oil recovery potential on Federal lands.
- For each BLM lease (source--Monthly Report of Operations):
  - monthly production data for 1990 to 1994
  - average oil gravity
  - well status data

Recommendations on royalty relief proposals will be made only after they have been run through the computer economic modelling.

Develop Consolidated Proposed Incentives

The subteams worked during September and early October 1994 to evaluate the comments and suggested incentives derived from the scoping meetings. The subteams also discussed and developed some additional proposed incentives based on their own experience and knowledge.

The Team met the week of October 24, 1994, and consolidated the products and efforts of the subteams. In evaluating those efforts, the Team determined that proposed incentives would take the form of: (1) reducing direct costs to industry through royalty relief; (2) reducing costs to industry through process streamlining and/or reduction of duplication; and, (3) increasing industry and BLM knowledge and awareness of state-of-the-art technologies, procedures, and operating practices.

Outreach Efforts

On October 27, the Team presented their action plan and a summary of the expected proposed incentives at a Forum sponsored by RMOGA and IPAMS in Denver.

On December 6, 1994, the Team presented a summary of the preliminary proposed incentives at the annual meeting of the Interstate Oil and Gas Compact Commission in Long Beach, California.

In mid-December, the Team consolidated their proposed incentives into an Outreach Package. After review by the Assistant Director for Resource Use and Protection, the Outreach Package was mailed to the Washington Office Bureau Performance Review distribution list on Friday December 23, 1995. The package allowed 30 days for comments, additional incentive ideas and indicated that an Outreach Forum would be held January 26, 1995. The Team held that Outreach Forum in Denver, Colorado, on January 26, 1995. Twelve customers, all representatives of the oil and gas industry, participated in the meeting. A record of comments received from outreach efforts is available for review.

On February 2, 1995, the Team presented their final proposed incentive recommendations at the BLM National Fluid Minerals Conference in Las Vegas, Nevada.

On February 9, 1995, the Team presented their final proposed incentive recommendations to the Public Lands Project Committee of the Interstate Oil and Gas Compact Commission in San Diego, California.

Expected Deliverables

The Team has developed a tiered set of immediate, near-term and long-term recommended actions. Those recommendations include an evaluation of the potential impacts to the Federal and State Governments, identification of any barriers to implementation, and a strategy for carrying forward the near-term and long-term actions including recommended outreach and collaboration. The recommendations also include draft guidance documents and, where appropriate, draft regulatory language to expedite implementation of the recommended incentives.

The Team defined the tiering as follows:

Immediate Actions: Actions that can be taken on agency initiative without legislative or regulatory revision, e.g., policy or procedural changes that can be initiated by an agency directive.

Near Term Actions: Actions that can be taken within 6 months or less and require further evaluation, multi-agency consent and action or approval above the agency level but within the Executive Branch, e.g., may include policy changes that require legal review or some regulatory changes.

Long Term Actions: Actions that require change in statute or regulation and require working with Congress and/or outreach with the State Governments and will probably take longer than 6 months to accomplish.

TECHNOLOGY TRANSFER

In October, the Team decided that proposals developed to enhance Technology Transfer should be pursued immediately since benefits to the industry, the environment and the Federal Government were clear.

In response to the need for better and more easily accessible information on state-of-the-art technologies, data, and operating practices a wide range of industry groups and government agencies have been setting up technology transfer networks to meet the needs for this information. At the Federal level, the United States Department of Energy has a well-established and far-reaching program for transferring technologies and information to the industry and the research community. Industry groups, such as the Petroleum Technology Transfer Council (PTTC), are establishing and maintaining a national network of regional organizations to provide information, data, training, technology, and support to the industry.

With the ongoing development and expansion of technology transfer networks at the Federal level through the efforts of the Department of Energy and other Federal agencies, at the regional and State level, and in industry, BLM does not need to "reinvent the wheel" by initiating a new and distinct technology transfer network for operators under its jurisdiction. Instead, it will take advantage of the work that has already been done by connecting with existing technology transfer organizations, and then determining the role that BLM must take to insure that operators on Federal lands, and BLM itself, are gaining the benefits of those networks.

To accomplish this goal of efficiently connecting BLM and its operators into existing technology transfer networks we recommend implementation of the following action plan for technology transfer to fully identify technology transfer resources available, operator and BLM needs, and effective mechanisms for information transfer.

ACTION PLAN

Immediate

Immediate steps will be taken to tie into TT services already available from the Department of Energy:

1. Initiate a series of regional/local meetings with operators on BLM lands to begin the process of identifying operator needs and opportunities for TT efforts.

2. Initiate a series of regional/local meetings with BLM and DOE staff to exchange information and establish coordinated TT activities - combined BLM/DOE TT functions are formally established through a Memorandum of Understanding (MOU).

Near Term

1. Expand beyond joint efforts between BLM and DOE to include other government agencies (USGS, MMS, etc.).

2. BLM participate in regional and local conferences/meetings to present its TT goals/efforts.

Long Term

1. Identify BLM employee training needs to facilitate TT and to improve employees' understanding of industry needs.

2. Develop and implement a training plan to accomplish needed training.

INCENTIVES RECOMMENDED FOR ACTION

ROYALTY RELIEF

INCENTIVE: Royalty Rate Reduction for High Cost Production

Problem: Many Federal oil and gas leases are being prematurely shut-in or abandoned due to decreased reserves and high operating costs. Once leases have been abandoned, the resource is lost forever. Royalty payments are one of the costs of operating oil and gas leases on Federal lands. For those leases nearing the end of their productive life, those facing high costs for secondary or tertiary recovery investments, or those wells having high water cut, or other unusual operating features, royalty reduction may help discourage premature abandonment.

Incentive: Royalty relief could be afforded to high cost production operations. Royalty rates could be reduced across the board for high cost operating wells such as those with high water cut and for enhanced oil recovery operations.

ACTION RECOMMENDED:

Evaluate proposed royalty rate reduction incentives through the TORIS modelling effort and make final decisions on specific incentive proposals.

Immediate: Royalty Rate Reduction Modeling - Model the effectiveness of royalty relief incentives for high cost production scenarios involving high water-cut wells.

Expected Completion Date: Preliminary model runs will be available for analysis by March 1995. Additional runs will be made as necessary.

Immediate: Host an informational forum, to discuss the specific cost, production, and revenue assumptions used to model the effect of the incentives. Invite participation from State, industry, and other interested parties. Preliminary results for the oil incentives will be available for discussion at that meeting. Further details about the meeting will be publicized when available.

Expected Completion Date: April 1995.

Immediate: Through policy guidance (Attachment B), implement royalty rate reductions on a project specific basis for enhanced oil recovery activities.

Expected Completion Date: May 1995.

Long Term: Draft notice of proposed rulemaking for those incentives deemed to be revenue neutral or revenue enhancing.

Expected completion date: Late summer 1995.

Long Term: Address comments and publish final rule(s).

Expected completion date: 1996

SUPPORTING ANALYSIS

Benefits/Impacts

Industry: Industry would benefit through reduced operating costs, effectively prolonging the productive life of the lease.

Public: The public will benefit through the utilization of existing wells to continue production. Less environmental impact is associated with existing wells than with new development.

States: States will also benefit through the continued production of resources from already existing wells. However, in the short run, royalties may be reduced. The leases, however, will continue to produce for a longer period of time than without royalty reduction. Therefore, the royalty reduction incentive should be "revenue neutral" in the longer term.

Government: The impacts to the Federal Government are the same as to the States. Additionally, the Federal Government will face some additional administrative burdens from implementing and monitoring the reductions. Criteria for each of the incentives will need to be established and personnel to oversee and administer the programs will need to be assigned.

Process for Change: Current regulations state the Secretary of the Interior may grant royalty rate reductions to "encourage the greatest ultimate recovery of oil or gas and in the interest of conservation." Royalty relief can be implemented on a case-by-case basis under current regulatory authority. The field offices need guidance and criteria on how to evaluate such applications.

The team recommends that the Director issue an Instruction Memoranda providing guidance on granting royalty rate reductions for those projects meeting certain criteria.

Collaboration: BLM will need to work with the DOE to analyze all of the incentives for their impacts to State and Federal income. It is estimated that the initial analyses will be complete by mid-March 1995.

Additionally, coordination with the MMS will be needed to assess the additional administrative burden associated with each of the incentives.

Barriers: Extensive outreach with the States will be needed to allay fears of excessive royalty income reduction.

DISCUSSION:

A Federal oil data base containing detailed reservoir, production, and cost information is being developed by the DOE with data provided by BLM and MMS. This data base will be used to

model the effectiveness of the proposed royalty incentives conducive to economic modeling. DOE's computer models TORIS, REPCO, and COPM will be used to estimate the costs and benefits of each royalty relief proposals by comparing the results of a "base case" run in which no royalty relief was available to an "incentive case" run in which the specific royalty relief proposal being analyzed was reflected in the model's operating costs in the form of lower royalty rates. Costs and benefits can be measured in terms of effects on royalties collected, oil reserves and production additions, extensions in well lives, jobs added, increases in Federal and State tax revenues collected, reductions in oil imports, improvements in the nation's balance of trade, and increase in the Gross Domestic Product.

Additionally, in response to requests from industry for royalty relief for gas, a Federal gas data base is also being developed. This data base will be used to model the effectiveness of royalty reduction for certain gas operations. BLM would like to receive additional information from industry as to the situations it feels may warrant royalty relief.

In response to requests from industry, BLM, MMS and DOE plan to host an informational forum in mid to late March 1995, to discuss the specific cost, production, and revenue assumptions used to model the effect of the incentives. Preliminary results for the oil incentives should be available for discussion at that meeting. Further details about the meeting will be publicized when available.

INCENTIVE: Royalty Relief for Wildcat and High Cost Wells

Problem: Wildcat horizontal and deep wells are the highest risk wells the industry drills. As such, when oil prices are low and money is tight, companies and investors are reluctant to invest in such wells. However, these wells are our only avenue to discover new oil and gas fields. The industry has no royalty based incentive to lower the risk of drilling such wells.

Incentive: Provide royalty relief for a specified period of time for any new Federal "wildcat" well. A wildcat well can be defined as any well at least 1 mile from existing oil production, or 3 miles from existing gas production. Relief could also apply to deep drilling (below 12,500 feet) to a new or previously undeveloped horizon, and to horizontally drilled wells.

ACTION RECOMMENDED:

Immediate: Through additional policy guidance (Drafts included in Attachments C, and D) under current regulatory authority, implement 1 year royalty relief on a project-specific basis for wildcat wells, horizontal drilling, and deep drilling activities.

Finalize and issue draft guidance for royalty relief for wildcat wells, deep drilling, and horizontal drilling.

Expected Completion Date: May 1995

SUPPORTING ANALYSIS

Benefits/Impacts:

Industry: The risk of drilling a wildcat well and high cost wells would be lowered, resulting in more wells being drilled and more new fields being discovered.

Public: The public would benefit by the additional oil and gas reserves discovered. State and Federal revenues would be negatively impacted in the short term by this incentive but may increase in the long term. Discovery of additional oil and gas reserves would contribute to reducing the increase in our dependence on foreign oil.

States: Same as for the public. In addition, increased drilling activity would contribute tax revenues and new discoveries would contribute additional severance tax and wage taxes.

Government: Same as for the public. In addition, increased drilling would contribute to our knowledge of our oil and gas resource base.

Process for Change: Royalty relief can be accomplished on a case-by-case basis under current regulatory authority. However, guidance needs to be developed on a common agency definition of wildcat horizontal, and deep wells and guidance on how to evaluate applications under the regulations.

Collaboration: Collaboration with the MMS would be necessary in order to modify the royalty management system to accept the royalty holiday.

Barriers: The States may object because of the short-term negative impact on royalty revenue. The environmental community may object because of the additional exploration the incentive would cause.

INCENTIVE: Eliminate Minimum Royalty Requirement for Stripper Wells

Problem: Current lease terms require that lessees pay a minimum royalty amount (usually $1 or $2 per acre) each year. This applies only to leases failing to generate enough royalty to exceed the minimum royalty amount. At present, this is applicable to all leases.

Incentive: Minimum royalty provisions be suspended for those leases qualifying for stripper well royalty rate reductions. The current minimum royalty requirements nullify the reduced royalty incentive for stripper wells to the degree that royalties calculated using the reduced royalty is less than the required minimum amount.

ACTION RECOMMENDED:

Near Term: Under the regulations at 43 CFR 3103.4 - 1 (d) (5) the BLM is required to evaluate the effectiveness of the stripper well royalty reduction program. As part of that review, the BLM will consider whether to eliminate the minimum royalty requirement for stripper wells, and determine whether the current 15 bbl per day definition is in need of

revision.

Expected completion date: end of 1995

SUPPORTING ANALYSIS:

Benefits/Impacts

Industry: Industry, especially small operators, would benefit by paying royalties based upon the amount and value of the oil produced. They would no longer be forced to pay an amount greater than that associated with production.

States: There may be a slight reduction in royalties to the States; however, these reductions will be offset through continued production from the wells.

Government: The Federal Government will encounter the same impacts and benefits as the States. Additionally, the Federal Government may face some slight increase in administrative burden to change computer monitoring systems.

Process for Change: A change in the oil and gas lease regulations at 43 CFR 3103.3-2 and 43 CFR 3103.4-1 would have to be made.

Collaboration: This incentive will require coordination between BLM and MMS to ensure the applicable monitoring systems will accommodate the change.

Barriers: There is a perception that minimum royalties are a minimum charge to use the land. Any amount below this floor may be viewed as accepting less than the full value for use of the land.

CONSERVATION OF OIL AND GAS RESOURCES

INCENTIVE: Simplified Production Pooling (Communitization)

Problem: Industry must obtain a separate Federal approval, known as a communitization agreement, to endorse a State spacing order (either default or fieldwide) to pool Federal interests. This is duplicative in nature and produces no added value to the process.

Incentive: Eliminate the need for industry to submit a separate agreement package to pool Federal interests. An operator can submit a request to communitize in any format, including a simple letter request, with minimal documentation required. Minimal changes to the regulations can replace voluminous documents currently required from operators. No changes to the benefits from communitization are proposed. This proposal does not eliminate the possibility of continuing to use the current application process if preferred by an operator.

ACTION RECOMMENDED

Near Term: This proposal requires very slight modification to the regulations, and can be accomplished during the regulation reduction process currently underway. Draft proposed regulations (Attachment E), and a complete copy of this proposal, have been provided to Regulatory Review Team for inclusion in their rulemaking process.

Expected Completion Date: 1996

SUPPORTING ANALYSIS:

Upon completion of a well in a spacing unit, which would ordinarily require communitization, the operator may submit a request for pooling for royalty purposes according to established or default State spacing. If approved, BLM provides approval to the operator which documents the agreement number, the effective date, royalty and production reporting and payment requirements; and the requirement to comply with operating regulations (3160s). BLM processes will still include creating an administrative case file under the case recordation number. Successor operator procedure will be same as current procedures for lease wells. Production from additional wells within the spacing unit will be reported to the same case recordation number.

Requests for communitization of Indian lands could be handled in the same manner as for Federal lands, but instead of sending approval to the operator, BLM sends a recommendation to BIA. Under the current MOU, BIA has sole approval authority for communitization.

Benefits/Impacts:

Industry: Reduced paperwork/redundancy, and increased customer service should be realized.

Public: No decrease in production accountability or protection of the public interest.

Indian Tribes/Allottees: Quicker processing, which will lead to quicker royalty payments would be expected.

Process for Change: This proposal requires little change to the regulations. If approved, the minor modifications can be made during the regulations reduction process, with minor rulemaking changes at 43 CFR 3105/3107.

INCENTIVE: Streamline Unitization Process

Problem: BLM unitization approval is a complex and expensive process for the applicants, although unitization benefits both the public and industry. Unitization is intended to promote the most efficient development of an oil and gas reservoir, minimizing both the number of wells drilled and environmental disturbance. Substantial benefits are offered to industry to encourage orderly development, yet many areas that could be developed as a whole are instead developed independently, often leading to waste, added costs and needless environmental damage. Delays result from uncertainties over well status, participating area

sizes, etc., because these decisions are now required to be made after the fact, long after the bills must be paid.

Incentive: A streamlined process would encourage additional unitization. Many operators would find it easier to put together prospective units if we:

simplified the application process;
reduced administrative uncertainties;
provided flexibility to operators; and,
established clear benefits in return for development.

ACTION RECOMMENDED:

Long Term: Revise the unitization regulations found in 43 CFR Subpart 3180. Draft proposed regulations are included in Attachment F. A copy of the draft proposed regulations, and a more complete description of the proposal, have been provided to the Regulatory Review Team.

Because this represents a major change to our current practices, additional opportunities for internal review and external comment are required as part of the rulemaking process.

Expected Completion Date: 1996

SUPPORTING ANALYSIS:

We propose to rewrite the regulations covering unitization (43 CFR Subpart 3180), to meet the above objectives.

To simplify the process, only specific requirements will be covered in an individual agreement, the regulations will cover all general terms required to protect the public interests, any other terms needed for cooperation among the parties will be in separate agreements not submitted to BLM.

Clearly, no administrative process will eliminate the technical uncertainties involved in exploring for and developing oil and gas resources. The administrative uncertainties can be reduced, however, by defining the specific requirements in advance, such as the size of a participating area, whether a well will be included in the unit, etc. Knowing up front who will participate if a well is productive may make it easier to put together planned development prospects.

This proposal allows operators flexibility in putting together planned development prospects, including allowing "windows" of non-committed tracts, multiple unit operators, and later modifications to the agreement when warranted.

There are substantial administrative benefits provided to lessees and interest owners from unitization. This proposal will make it simpler to determine when leases have met requirements to earn these benefits, and balances the public's interests by only granting these

benefits when appropriate.

A unit agreement under this proposal would have only the following sections:

Unit area.
Map

Development Requirements
Initial Obligation Well(s)
Timeframes for Initial Obligation Wells
Primary target
Timeframes for continuing Development Obligations

Participation
Productivity criteria
Drilling block size
Establishment of participating areas
Additions to participating areas

Unitized Formations
All inclusive unless specified.

Multiple Unit Operator and/or Modifications to the Unit Agreement
Optional sections.

Benefits/Impacts:

Industry: Operators would realize reduced operating costs and administrative burdens and a simplified application process.
Regulation revision eliminates unknowns of revenue distribution that exist in the current system.

Public: Orderly development would be encouraged, which may result in additional revenue, reduction of surface impacts, and increased recoveries from current fields. Reduced administrative process may result in more efficient use of tax dollars. Any simplification may be seen as a reducing the protection of public resources (environment, royalty and otherwise).

Tribes/Allottees: The new process may give Tribes/allottees additional flexibility to negotiate on terms critical to their interests. Protection for Indian lessors currently in place is not disturbed.

States: Increased use of unitization may result in increased exploration and subsequent production with associated tax and royalty revenues and employment.

Process for Change: The Regulatory Review Team can incorporate this proposal into the rewrite of the unitization regulations at 43 CFR 3180. Rulemaking will allow for additional comment from constituent groups as well as provide for additional internal review.

ENVIRONMENTAL

INCENTIVE: Bioremediation Policy

Problem: Intrinsic in the production of oil and gas are incidental spills at well sites and production facilities, and the accumulation of waste oils (tank bottoms) that generally pose only minor environmental concerns. Presently BLM has no specific policy for clean up of spills and disposal of waste oils. Under the Oil Pollution Act (OPA) and the Resource Conservation and Recovery Act (RCRA), hydrocarbon wastes should be transported to approved disposal sites. This may require costly transportation and raise unnecessary liability potential.

Incentive: On site bioremediation of oil spills and non-hazardous waste oils, if properly performed, can be an environmentally acceptable and useful technology to eliminate hydrocarbon contamination. The BLM should develop a national policy to utilize bioremediation where feasible as a treatment method. This would reduce industry clean-up/transportation costs and may prevent future liabilities.

Standards should be flexible enough to allow for conditions specific to the types of crude oils, climate, lands, and environmental conditions of an area, and be compatible with any State rules. Pre-approval of BLM bioremediation procedures by the Federal On-scene Coordinator, Regional Response Team and Natural Resource Trustees (collectively referred to as RRT) will be necessary for compliance with the National Contingency Plan and Oil Pollution Act. Therefore, BLM State and USFS Regional Offices should be directed to establish procedures based on general national standards.

Future expansion of the policy could include other acceptable disposal techniques such as solidification.

ACTION RECOMMENDED:

Long Term: Develop a program for bioremediation of spills and waste oils.

BLM, Colorado, in cooperation with the Department of the Interior, Office of Environmental Policy and Compliance (OEPC) is in the process of negotiating an agreement with RRT, Region VIII for pre-authorization of an oil spill bioremediation program. The program is similar to State of Colorado bioremediation standards. The Regional Response Team will meet in mid-April, 1995. The Colorado BLM proposal is a tentative agenda item.

Once RRT approves the BLM Colorado oil spill bioremediation program, headquarters should issue instructions (See Attachment G) to BLM State Offices directing development of similar programs. A copy of the Colorado program should be included for use as a model.

Expected Completion Date: 1996/97. Approval of the Colorado oil spill bioremediation program could occur by mid-April, 1995. Once the Colorado program is authorized, it should take about 3 months to issue nationwide instructions from BLM Headquarters. Individual BLM State Offices should be able to develop draft bioremediation programs within 6 months. Up to 6 months to one year could be expected to gain RRT approval of a program and would

generally be dependant on the number of States each BLM State Office works with. Total time estimate is 1 to 1 1/2 years for implementation.

SUPPORTING ANALYSIS:

Benefits/Impacts

Industry: Reduced transportation and disposal costs could be realized by oil and gas operators, but savings may be offset by sampling costs. Potential liabilities from disposal sites could be eliminated.

Public: The public could benefit from reduced liabilities associated with disposal. Wastes would be depleted in place rather than transported to landfills for disposal.

States: Less material would be concentrated in landfills.

Government: Federal benefits include the elimination of potential liability at disposal sites. However, the potential for on-site contamination would exist and there would be an increase in personnel and funding demands for monitoring.

Process for Change: BLM policy changes/development would be necessary to implement on-site bioremediation procedures for treatment of spills and waste oils. Pre-authorization of a process must be obtained from various RRT.

Collaboration: Intra-agency cooperation between BLM hazardous materials and minerals programs will be needed to establish common goals. Coordination between BLM and various RRTs would be necessary to develop bioremediation programs consistent with Regional Annexes of the National Contingency Plan.

Barriers: The National Contingency Plan requires RRT approval of hydrocarbon spill bioremediation. Pre-approval of a BLM program for spill bioremediation procedures would eliminate the need for RRT approval of each individual proposal for bioremediation. The RRT regional organization requires BLM cooperation with various offices. There would also be royalty issues to consider. Disposal of spills and tank bottoms should meet waste oil specifications of Title 43 Part 3162.7, and Onshore Oil and Gas Orders 3 and 4. Consistency with planning objectives is also necessary for on-site bioremediation.

INCENTIVE: Environmental Compliance Self-Certification

Problem: With shrinking budgets and staffing at BLM, attainment of oil and gas environmental compliance inspection goals by BLM surface protection personnel is becoming difficult.

Incentive: To allow BLM to concentrate on other duties (e.g., NEPA documents, planning), operators with good compliance records would be allowed to self-certify environmental compliance at oil and gas sites. A program could be engineered toward specific environmental concerns as well as general environmental conditions. Time and money savings for Government and industry would be realized. Industry would be able to police itself during

routine operations or self inspections and be freed from responding to BLM compliance demands.

The specifics of environmental compliance self-certification would be developed jointly between operators and BLM through a pilot test effort in select field offices. Any self-inspection system should fall within the existing framework of the Oil and Gas Inspection and Enforcement Strategy, and should include "amnesty" provisions for inadvertent non-compliance.

ACTION RECOMMENDED:

Long Term: Initiate a pilot self-certification project. The oil and gas program in BLM, Wyoming would be an ideal test site to conduct a pilot of an operator self inspection program. The BLM Buffalo Resource Area (Buffalo, Wyoming) has expressed an interest in participating such test, and has already developed some preliminary criteria and guidelines. The Wyoming State Office should be directed to organize and conduct a pilot test of an operator self inspection program. Sufficient flexibility in establishing the test should be allowed as long as it meets Oil and Gas Inspection and Enforcement Strategy guidance and goals, and resource management planning objectives.

Instructions from headquarters (See Attachment H) to the Wyoming State Director are needed to initiate the pilot. The study should be monitored by the Wyoming State Office, and, once completed, results evaluated. The National Inspection and Enforcement Task Force should be designated to review and consider pilot test results. Three primary options would be available for recommendation: (1) continue the pilot test to obtain additional data; (2) include an environmental self-inspection program into the Oil and Gas Inspection and Enforcement Strategy; or (3) discontinue and abandon the concept.

Expected Completion Date: 1997 Once instructions are issued by WO, it is expected a pilot program could be developed by the Wyoming State Office within 6 months. Ideally, the pilot could begin with the start of the 1996 fiscal/inspection year. The pilot test should be conducted for a minimum of one year to complete an inspection strategy cycle, although additional time would be desirable. Compilation of test results by the Wyoming State Office and evaluation by the National Inspection and Enforcement Task Force should take 6 months. Under ideal circumstances, inclusion into the 1998 Oil and Gas Inspection Strategy could be expected.

SUPPORTING ANALYSIS:

Benefits/Impacts

Industry: Many companies already self-inspect their sites as part of internal audits and liability minimization. By not responding to BLM compliance demands, operators could realize some cost savings. Positive public relations for the industry would also be possible.

Public: Savings in Government costs may be evident.

States: There is potential for carryover of such a program and its benefits to State leases.

Government: By delegating environmental inspections to operators, BLM would have more time and dollars available for other important duties. Development of trust with industry would be possible through building of better cooperative relationships. Improper reporting or false certification of onsite conditions by operators could result in environmental problems.

Process for Change: Pilot testing is necessary to determine feasibility of self-certification and establish program criteria. Procedures of the Oil and Gas Inspection and Enforcement Strategy would require modification. Substantial outreach efforts with industry will be necessary to implement such a program.

Collaboration: Cooperation between BLM and industry would be necessary to develop specifics of the program.

Barriers: None

INCENTIVE: Ecocredits

Problem: There are few existing incentives for oil and gas operators on Federal leases that reward proactive environmental activities.

Incentive: Rental/royalty relief could be offered to oil and gas companies for voluntarily exceeding environmental requirements, or undertaking or cooperating in ecosystem enhancement projects (e.g., habitat restoration) identified in land use plans. A system that encourages environmental protection/projects by the oil and gas industry beyond standard Federal operating requirements would provide a means of completing land management and ecosystem enhancement activities that may not otherwise be fulfilled.

ACTION RECOMMENDED:

Long Term: Two potential "ecocredits", the "Best Operating Practice Program" (BOPP) and the "Ecosystem Enhancement Program" (EEP) have been identified for further development.

The BOPP program is envisioned to reward operators who voluntarily exceed requirements, or go beyond compliance and set a standard for others to follow. The EEP program would involve voluntary participation by companies to undertake identified ecosystem enhancement projects.

Establishing either of the programs would require identification and establishment of criteria, rules and administration, and analysis of economic implications.

The initial action in the process should be a legal analysis to determine if ecocredits can be implemented without a legislative change. Making only regulatory changes to implement ecocredits would facilitate the process.

Next, a small team consisting of legal, engineering, natural resources, royalty and leasing

personnel should be established to continue development of ecocredits. Program development should include the formulation of criteria and administrative procedures, establishment of rules, and analysis of economic affects to rental/royalty income.

Expected Completion Date: 1996 or later. Legal analysis of the proposal could take up to 3 months. Development of a draft ecocredits program should take 6 more months. Final implementation would depend on the necessity to change legislation, or only make regulatory and/or policy changes.

SUPPORTING ANALYSIS:

Benefits/Impacts

Industry: The oil and gas industry could benefit as costs for environmental projects would accrue back to operators. Ecocredits would offer economic rewards for proactive environmental activities. Positive public relations would also be possible, and a position against challenges to oil and gas development could be created.

Public: The public would gain from improved ecosystem health. Public impacts could include a loss of Federal and State revenues.

States: There would be a reduction of States' share of royalties/rentals.
State benefits would also include improved ecosystem health.

Government: Even though ecocredits would result in a reduction in Federal revenues, the BLM could attain land use planning and ecosystem goals at substantially discounted costs. Accounting, monitoring, and program administration costs and workloads could, however, offset gains. Economic gains, losses and offsets are not, however, quantifiable due primarily to the variable nature of environmental projects.

Process for Change: Legal and economic analyses must initially be completed to establish viability. A system for granting rental/royalty credits to operators for exceeding Federal environmental/surface requirements or for voluntary participation in ecosystem enhancement projects needs to be developed. Criteria, procedures, rules, ecocredit values and program administration must be determined.

Collaboration: Outreach with industry and other agencies would be needed. Cooperation between BLM and MMS would be needed to establish and implement a program for rental/royalty credits. Coordinate with USFS and other Surface Management Agencies may also be needed to develop similar programs.

Barriers: The Mineral Leasing Act (30 U.S.C. §209 [1988]) may require changes. BLM must determine whether the term "conservation of natural resources", as used in this section of the Act can be applied to environmental projects for reducing royalties and rentals. Additional barriers to ecocredits are apparent Mineral Leasing Act restrictions to dealing with the "leasehold" (or unit). Environmental projects such as ecosystem enhancement would generally involve off lease activities. Such projects may require adjustment to these

provisions of the Act. Regulatory changes (43 CFR 3103.4-1) would also be necessary.

Ecocredit projects would have to be restricted to Federal lands/mineral estate. This could cause difficulties in areas with mixed ownership. Political resistance due to reduction in States share of royalties would be possible. Any projects would have meet resource management planning objectives. There would also be the potential for removal of lands from leasing through change in leasing categories as a result of environmental projects or enhancement.

EXPLORATION AND DRILLING

INCENTIVE: Revise Policy on Development Contracts

Problem: In many of the largely unexplored areas that remain onshore, the companies that would most likely explore these areas for additional reserves are unable to because they are close to their acreage limitation. Under 43 CFR 3105.3, a company could apply for a development contract to enable the exploration of undeveloped areas and exempt the acreage from chargeability. The General Accounting Office (GAO), after an investigation into the approval of development contracts criticized the concept as it currently exists, resulting in BLM imposing a moratorium on any further approvals of development contracts. The moratorium is no longer in effect but the BLM has not developed any subsequent policy on the use of development contracts.

Incentive: Development contracts are a form of incentive to industry by allowing the lease acreage involved to be eliminated from the Statewide acreage chargeability. Issuing clear policy direction on the use of development contracts would revitalize this incentive to explore new areas.

ACTION RECOMMENDED:

Immediate: Issue policy and guidance (See Draft Guidance in Attachment I) to the field on the use of development contracts, application and approval.

Expected completion date: May 1995

SUPPORTING ANALYSIS

Benefits/Impacts

Industry: The acreage dedicated to such contracts is exempt from acreage chargeability. Contribute to revitalizing domestic industry through increased exploration and possibly identifying undiscovered fields.

Public: Contribute to reducing dependence on foreign oil, strengthening national/economic security. Contribute to revitalizing domestic industry including increased jobs/tax revenues.

States: Increased State tax revenues from jobs and new production.

Government: Additional knowledge gained about oil and gas resources.
Same as public benefit

Process for Change: Develop and issue clear policy guidance on the criteria under which development contracts can be applied for and approved.

Collaboration: May need to communicate with concerned members of Congress. Outreach would be necessary to inform the industry that we are again accepting development contract applications.

Barriers: None.

STATUS OF OTHER PROPOSED INCENTIVES

The Team determined through analysis of outreach comments, internal discussion and coordination with the other Teams that the following proposed incentives should be transferred to the indicated Team for consideration in the second phase of their efforts:

TRANSFER TO NEPA/PLANNING TEAM

Title: Standardize Lease Stipulations and Approval Conditions

Problem: Current practices of assigning stipulations to leases and Conditions of Approval (COAs) to applications are inconsistent. Large volumes of stipulations/COAs are frequently attached to leases/permits, and delays in application processing are possible. Many stipulations and COAs are redundant of standard lease terms and/or regulations.

Incentive: Standardizing lease stipulations and COAs for Applications for Permit to Drill (APDs) would create uniformity and reduce the volume of conditions attached to leases and permits. Operators would not have to digest a myriad of stipulations and approval conditions, and could concentrate on site-specific conditions.

A uniform format for oil and gas lease stipulations was developed by a joint BLM and USFS committee in 1989. Current BLM policy (BM 3101) requires the use of this uniform format for issuance of new leases whenever possible to provide consistency and clarity. Analysis of lease stipulations in Utah showed that stipulations, derived from land use plans, and currently in use, can be rewritten into one of the three stipulation categories and/or the lease notice of the uniform format. While standardized COAs would be difficult due to variation in regional or local ecosystem characteristics, a uniform format could be developed on a Nationwide/Statewide scale. The redundancy and repetition of existing regulations that is prevalent in current approval conditions could be eliminated to reduce bulk.

Title: Ecosystem Outreach

Problem: The oil and gas industry may be unaware and/or apprehensive of the emphasis on

ecosystem management and biodiversity. The BLM/FS needs to do a better job of informing industry of management goals and how minerals activities fit into these goals.

Incentive: An understanding by the minerals industry of the biodiversity and ecosystem management goals of land management agencies should provide oil and gas operators the motivation for becoming involved in the planning process at an early stage.

TRANSFER TO LEASING LAB

Title: Automate Competitive Leasing

Problem: Under the current competitive leasing program, each State holds an oral competitive lease sale at least once each quarter as required by the Federal Onshore Oil and Gas Leasing Reform Act of 1987. It requires participants in the sales to be present at each location where a sale is held. It also requires the BLM to obtain an auctioneer and facilities for the lease sale.

Incentive: Automate the competitive leasing program by allowing bids to be placed from any location via a touch-tone phone. All competitive lease sales could be held from one location where the automation equipment would reside.

TRANSFER TO BONDING/UNFUNDED LIABILITY TEAM

FEDERAL GOVERNMENT LIABILITY FOR ORPHAN OIL AND GAS WELLS

Title: Modified Over-the-Counter Lease Offers

Problem: Orphan oil and gas wells are those wells which were either not plugged and abandoned or were improperly plugged and abandoned, the lease has since terminated, and the former lessee or bond no longer exists. Approximately 125 orphan wells are currently awaiting proper abandonment on Federal lands. These represent liability to the Federal government and must be plugged with public funds. Industry has expressed interest in adopting wells where their respective leases can be obtained noncompetitively.

Incentive: Issue a BLM parceled lease, to a party willing to accept responsibility to properly plug and abandon an orphan well, after the tract fails to receive bids on the competitive or over the counter sale. Modify the lease instrument to extend the primary term of the lease and do not count it against the lessee's acreage limitation. Implementation may require legislative action.

Title: Alternate Use Land Withdrawal

Problem: Orphan oil and gas wells are those wells which were either not plugged and abandoned or were improperly plugged and abandoned, the lease has since terminated, and the former lessee or bond no longer exists. Approximately 125 orphan wells currently awaiting proper abandonment on Federal lands. These represent liability to the Federal Government and must be plugged with public funds.

Incentive: Withdraw or withhold land associated with orphan wells from leasing for oil and gas, when public or private groups (e.g., preservation, conservation) are willing to "adopt" (i.e., take responsibility for proper plugging and abandonment) the wells and the withdrawal of the land from oil and gas development can be used to improve other resources such as wildlife, cave areas, archeological sites, and others.

Title: Adopt an Orphan Well

Problem: Orphan oil and gas wells are those wells which were either not plugged and abandoned or were improperly plugged and abandoned, the lease has since terminated, and the former lessee or bond no longer exists. These represent liability to the Federal Government and must be plugged with public funds. Approximately 125 orphan wells currently exist on Federal lands managed by BLM. Situations may exist where public entities are willing to assume responsibility for plugging and abandoning orphan wells and/or site reclamation. Such groups may include other Federal agencies, State agencies, counties, municipalities or school districts, or private entities, such as individuals, oil and gas companies, State or regional oil and gas associations, entities that lease or use surface lands for livestock grazing, agricultural or recreational purposes including sports or hunting clubs, and not-for-profit organizations. Reasons for this willingness are numerous and could include ensuring the unencumbered use of surface lands, enhancing safety and public welfare, improving public relations, and creating good will.

Incentive: Provide the opportunity for public or private entities to assume the responsibility for the proper plugging and abandonment of orphan wells and/or site reclamation.

Title: Noncompetitive Lease Offering

Problem: Orphan oil and gas wells are those wells which were either not plugged and abandoned or were improperly plugged and abandoned, the lease has since terminated, and the former lessee or bond no longer exists. These represent liability to the Federal Government and must be plugged with public funds. Approximately 125 orphan wells are currently awaiting proper abandonment on Federal lands. Industry has expressed some interest in adopting wells where their respective leases can be obtained noncompetitively. However, the Oil and Gas Leasing Reform Act requires that the lease be offered competitively prior to lease-by-application.

Incentive: Issue BLM-parcelled leases, without competition, to a party willing to accept responsibility for an associated orphan well. Implementation may require legislative action.

Title: BLM In-house Abandonment Program

Problem: Orphan oil and gas wells are those wells which were either not plugged and abandoned or were improperly plugged and abandoned, the lease has since terminated, and the former lessee or bond no longer exists. These represent liability to the Federal Government and must be plugged with public funds. The present Federal contracting procedures for plugging and abandoning orphan wells are cumbersome, time consuming and not as cost effective as they could be. Changing the Federal contract standards to allow BLM

personnel to go out for bids for the equipment and supplies necessary to properly plug and abandon a well instead of using a third-party contractor could reduce costs to the Government.

Incentive: Allow the Federal Government to directly seek bids on equipment and supplies to properly plug and abandon the wells in-house (i.e., without using a third-party contractor to do the work).

Title: Land Conveyance

Problem: Orphan oil and gas wells are those wells which were either not plugged and abandoned or were improperly plugged and abandoned, the lease has since terminated, and the former lessee or bond no longer exists. These represent liability to the Federal Government and must be plugged with public funds. Approximately 125 orphan wells are currently awaiting proper abandonment on Federal lands. Some of these wells may be located in areas attractive to local Governments/organizations/industrial entities as potential recreational or industrial areas. FLPMA currently allows issuance of an R&PP patent or sale at fair market value of public lands to local Governments for recreational or public purposes. The law does not provide for issuance of an R&PP patent to private entities.

Incentive: Convey lands containing orphan well site(s) to local Governments/ organizations for use as recreational or industrial areas (landfills, industrial parks, etc.) in exchange for accepting liability/responsibility for plugging orphan well(s).

PROPOSED INCENTIVES NOT RECOMMENDED FOR ACTION

The proposed incentives listed below which were included in the Team's Outreach Package are not recommended for further action or implementation. Upon evaluation of the feedback from the Outreach Forum and the responses to the Outreach Package and as a result of internal Team discussions, the Team determined that the workload and cost to implementing these proposed incentives was not justified by the expected benefits to the Federal government, the industry or our external partners and customers.

ENVIRONMENTAL

Title: Recognition Awards

Problem: The BLM lacks a uniform system to recognize environmental efforts conducted by the oil and gas industry. While awards for environmental activities have been presented to oil and gas companies by the BLM in the past, the recognition was usually local, rarely advancing beyond the District Office Level. Public awareness of collaborative efforts, "good neighbor" activities, and self-compliance by oil and gas companies would provide positive public relations for their environmental efforts.

Incentive: The BLM should develop a uniform system of recognition awards to be presented to the petroleum industry to recognize notable ecosystem projects, collaborative partnerships, creative practices, etc., on public lands/leases. Recognition would provide positive public

the Secretarial level to gain the widest possible exposure. The MMS's *Secretary of Interior Mineral Revenue Stewardship Award* could be used as a model.

Title: Liberalize Lease Extensions for Drilling

Problem: Under current law and regulation, a lessee is entitled to a one-time 2-year drilling extension for diligent drilling operations conducted over the expiration of the primary term of a Federal lease. This causes many lessees to wait until late in the lease term to commence drilling.

Incentive: Grant a 2-year lease extension to any Federal lease on which drilling occurs regardless of what year in the lease term.

ATTACHMENTS

A. Team/Subteam Roster
B. EOR Draft Memo
C. Horizontal/Multiple Wells
D. Wildcat/Deep Drilling
E. Communitization Draft Rules
F. Unitization Draft Rules
G. Draft IM on Bioremediation
H. Draft IM on Environmental Self Certification Pilot
I. Draft Suggestions on Ecocredits
J. Draft IM on Development Contracts

Attachment A

BLM OIL AND GAS PROGRAM REVIEW

INCENTIVES TEAM ROSTER

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Attachment B

DRAFT

UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
WASHINGTON, D.C. 20240

In Reply Refer To:
3160 (610)

Instruction Memorandum No. 95-
Expires:

To: All SD's

From: Director

Subject: Royalty Rate Reductions for Enhanced Recovery of Oil and Gas on Federal Leases

DISTRIBUTION: All States and Field offices with fluid mineral programs.

OBJECTIVE: In order to encourage the greatest ultimate recovery of oil or gas, and in the interest of conservation, a royalty rate reduction (RRR) program is being instituted to provide an incentive to the oil and gas industry to commence new enhanced oil and gas recovery (ER) projects. As provided in 43 CFR 3103.4, the Secretary is authorized to waive, suspend, or reduce the rental or minimum royalty or reduce the royalty on an entire leasehold, or any portion thereof, to promote development. This directive provides procedures and guidance to grant royalty rate reductions to operators who commence enhanced oil and gas recovery projects.

BUREAU POLICY: The onshore oil and gas performance review for incentives identified the enhancement of production from existing fields as an important objective. This new policy provides guidance on the the granting of a one-sixteenth royalty rate to a lease with a qualifying oil and gas Enhanced Recovery (ER) project. The intent of this policy is to provide an incentive to operators to commence ER projects on an entire reservoir basis, therefore we will accept joint applications for all lands within a proposed project area. In the case of a pilot ER project or an ER project with a long development timeframe, the authorized officer may grant RRR's to lands as they see a benefit from the ER process.

Definition of Enhanced Recovery (ER)

Enhanced recovery is defined as any operation initiated after primary depletion which is meant to improve overall recovery efficiency. Generally this will entail the introduction of an outside

energy source or chemical into the system.

Eligibility Criteria

The intent of this incentive is to encourage new enhanced recovery projects which would otherwise not be undertaken. To qualify, a project must demonstrate the capability to recover additional or incremental reserves not recoverable under current existing operations in the field or reservoir. Some examples would include, commencing a water flood in a reservoir under primary depletion, miscible or immiscible gas flooding, micellar or polymer flooding, etc. Gas cycling or gas injection for the purpose of pressure maintenance would not qualify.

Royalty Rate Reduction Effective Date and Term

The authorized office should set the effective date of approved royalty rate reductions on the commencement of the ER project. Commencement is defined to occur with the physical addition of energy or chemical to system (e.g., commencement of gas injection, initiation of insitu combustion). The RRR is effective the first of the month following commencement and remains in effect over the life of the ER project as long as it is conducted in good faith by the operator. The RRR is deemed terminated upon cessation of the ER project or upon the Authorized Officer's determination.

Scope of RRR

Prior to issuance of this IM, the scope of the RRR will be determined after further analysis and coordination to determine the systems capabilities/changes required.

Application Process

To apply for an RRR, an operator must submit an application in accordance with existing regulations including a detailed feasibility study for the proposed ER project describing the horizons and lands involved in the project and the expected amount of incremental hydrocarbons to be recovered. Upon approval by the authorized officer the operator shall notify the appropriate office of commencement of the ER project as defined above.

Policy Termination

This RRR policy may be terminated at any time upon notice.

IMPLEMENTATION AND SCHEDULE: This policy is effective immediately.

BUDGET IMPLICATIONS: Additional time will be required by BLM and MMS to process RRR requests and approvals.

COORDINATION: Prior to issuance of this IM, the coordination process will be determined after further analysis and coordination with MMS.

CONTACT PERSONS: Questions may be addressed to _____.

Attachment C

DRAFT

UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
WASHINGTON, D.C. 20240

In Reply Refer To:
3160 (610)

Instruction Memorandum No. 95-
Expires:

To: All SD's

From: Director

Subject: Two-Year Royalty Rate Reduction for Horizontal and Directional Wells and Multiple Wells Drilled from a Common Pad on Federal Leases

DISTRIBUTION: All States and Field offices with fluid mineral programs.

OBJECTIVE: In order to encourage oil and gas exploration and promote development with minimal surface disturbance and in the interest of conservation, a royalty rate reduction (RRR) program is being instituted to provide incentives to the oil and gas industry. As provided in 43 CFR 3103.4, the Secretary is authorized to waive, suspend, or reduce the rental or minimum royalty or reduce the royalty on an entire leasehold, or any portion thereof, to promote development. This directive provides procedures and guidance to grant royalty rate reductions to operators who undertake such projects.

BUREAU POLICY: The onshore oil and gas performance review for incentives identified the development of new oil and gas reserves with minimal surface disturbance as an important objective. This new policy provides guidance on the granting of a two-year royalty rate reduction of one-sixteenth to a well defined as horizontal, directional for the purpose of mitigating surface concerns, or wells drilled from a common pad. The intent of this policy is to provide an incentive to operators to drill horizontal and directional wells resulting in the minimization of surface disturbance.

Definition of Horizontal and Directional Wells

A horizontal well is defined as drilled at greater than 86 degrees from vertical. Typically, these wells can tap the reserves of 3 conventional vertical wells. A directional well is defined as having different surface and bottom-hole locations. If there are multiple wells drilled from a common pad, these directional wells automatically qualify for the RRR. If there is only one

directional well, there must be identifiable surface concerns for having drilled directional in order to qualify for the RRR.

Eligibility Criteria

The intent of this incentive is to encourage the drilling of horizontal and directional wells that minimize surface disturbance. To qualify, a project must meet the definition of a horizontal or directional well as described above.

Royalty Relief Effective Date and Term

The authorized officer should make the royalty reduction effective for a period of two years from the date of first production.

Scope of Royalty Rate Reduction

Prior to issuance of this IM, the scope of the RRR will be determined after further analysis and coordination to determine the systems capabilities/changes required.

Application Process

To apply for a royalty rate reduction, an operator may submit an application in accordance with existing regulations along with an Application for Permit to Drill. The authorized officer may approve the request contingent upon completion of the well in the projected horizon, subject to the criteria discussed above.

Policy Termination

This royalty rate reduction policy may be terminated at any time upon notice.

IMPLEMENTATION AND SCHEDULE: This policy is effective immediately.

BUDGET IMPLICATIONS: Additional time will be required by BLM and MMS to process royalty rate reduction requests and approvals.

COORDINATION: Prior to issuance of this IM, the coordination process will be determined after further analysis and coordination with MMS.

CONTACT PERSONS: Questions may be addressed to _____

Attachment D

DRAFT

UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
WASHINGTON, D.C. 20240

In Reply Refer To:
3160 (610)

Instruction Memorandum No. 95-
Expires:

To: All SD's

From: Director

Subject: One-Year Royalty Relief for Wildcat Wells and Deep Drilling on Federal Leases

DISTRIBUTION: All States and Field offices with fluid mineral programs.

OBJECTIVE: In order to encourage oil and gas exploration and promote development of deep horizons in the interest of conservation, a royalty relief program is being instituted to provide incentives to the oil and gas industry. As provided in 43 CFR 3103.4, the Secretary is authorized to waive, suspend, or reduce the rental or minimum royalty or reduce the royalty on an entire leasehold, or any portion thereof, to promote development. This directive provides procedures and guidance for the granting of royalty relief to operators who undertake such projects.

BUREAU POLICY: The onshore oil and gas performance review for incentives identified the development of new oil and gas reserves as an important objective. This new policy will provide guidance on the granting of one-year royalty relief to a well defined as a wildcat or deep drilling project. The intent of this policy is to provide an incentive to operators to drill wildcat and deep wells.

Definition of Wildcat and Deep Wells

A wildcat is defined as a well which is located further than one mile from existing oil production and further than three miles from existing gas production. This definition also includes production from a new, previously undeveloped horizon in an existing field. A deep well is defined as any well which produces from a horizon greater than 12,500 feet deep.

Eligibility Criteria

The intent of this incentive is to encourage new drilling projects which may otherwise not be undertaken. To qualify, a project must meet the definition of a wildcat or deep well as described above.

Royalty Relief Effective Date and Term

The authorized officer may approve royalty relief for a period of one year from the date of first production from the well, not to exceed X number of barrels of oil or the energy equivalent of gas (30,000 barrels of oil was suggested as a cap).

Scope of Royalty Relief

Prior to issuance of this IM, the scope of the RRR will be determined after further analysis and coordination to determine the systems capabilities/changes required.

Application Process

To apply for royalty relief, an operator may submit an application under the existing regulations along with an Application for Permit to Drill. The authorized officer may approve the request contingent upon completion of the well in the projected horizon, subject to the criteria discussed above.

Policy Termination

This royalty relief policy may be terminated at any time upon notice.

IMPLEMENTATION AND SCHEDULE: This policy is effective immediately.

BUDGET IMPLICATIONS: Additional time will be required by BLM and MMS to process royalty relief requests and approvals.

COORDINATION: Prior to issuance of this IM, the coordination process will be determined after further analysis and coordination with MMS.

CONTACT PERSONS: Questions may be addressed to _____

Attachment E

Draft Proposed Rule Changes - Communitization

Changes to current text:

3105.2-1 Where filed
(a) delete "(a)" and ", in triplicate,"
(b) delete entirely

3105.2-3 Requirements
(a) delete entirely and replace with: "A request for communitization or drilling agreement may be made in the form of a sundry notice or a letter, and may accompany submission of an Application for Permit to Drill, form 3160-3, or Well Completion or Recompletion Report and Log, form 3160-5 or State equivalent reports. The request must be signed by the proponent and must contain: description of the area and formation(s) covered; proposed or existing wells; description of product; apportionment of Federal royalties; spacing or field rules; name, address and phone number of party responsible for operations under the agreement; certification of authority to act on behalf of all necessary parties; and certification to protect the interests of the United States. The request for approval must be filed prior to the expiration of the Federal lease(s) involved in order to confer the benefits of the agreement upon the lease(s). For amendments to the original agreement covering the same area, including adding wells, formations, product, etc., to the agreement, the responsible party shall submit information on the changes as required for the original agreement. When required to protect the Federal interests or to cover unusual situations, the authorized officer may require more detailed information prior to approval."

3105.2-3 Requirements
(b) Add at the end of the paragraph: "The communitization agreement shall continue in effect for a period of two years, or as long thereafter as communitized substances can be produced in paying quantities. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction."

Add: "(d) The operator shall submit such information as reasonably required by the authorized officer. This information shall include: well log and history of any well drilled in the communitized area; monthly reports of operations; statements of oil and gas sales and royalty.

(e) The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the affected parties that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to the agreement."

Proposed text to read:

3105.2 Communitization or drilling agreements.

3105.2-1 Where filed.

Requests to communitize separate tracts shall be filed with the proper BLM office.

3105.2-2 Purpose

When a lease or a portion thereof cannot be independently developed and operated in conformity with an established well-spacing or well-development program, the authorized officer may approve communitization or drilling agreements for such lands with other lands, whether or not owned by the United States, upon a determination that it is in the public interest. Operations or production under such an agreement shall be deemed to be operations or production as to each lease committed thereto.

3105.2-3 Requirements.

(a) A request for communitization or drilling agreement may be made in the form of a sundry notice or a letter, and may accompany submission of an Application for Permit to Drill, form 3160-3, or Well Completion or Recompletion Report and Log, form 3160-5 or State equivalent reports. The request must be signed by the proponent and must contain: description of the area and formation(s) covered; proposed or existing wells; description of product; apportionment of Federal royalties; spacing or field rules; name, address and phone number of party responsible for operations under the agreement; certification of authority to act on behalf of all necessary parties; and certification to protect the interests of the United States. The request for approval must be filed prior to the expiration of the Federal lease(s) involved in order to confer the benefits of the agreement upon the lease(s). For amendments to the original agreement covering the same area, including adding wells, formations, product, etc., to the agreement, the responsible party shall submit information on the changes as required for the original agreement. When required to protect the Federal interests or to cover unusual situations, the authorized officer may require more detailed information prior to approval.

(b) The agreement shall be effective to the Federal lease(s) involved only if approved by the authorized officer. Approved communitization agreements are considered effective from the date of the agreement or from the date of the onset of production from the communitized formation, whichever is earlier, except when the spacing unit is subject to a State pooling order after the date of first sale, then the effective date of the agreement may be the effective date of the order. The communitization agreement shall continue in effect for a period of two years, or as long thereafter as communitized substances can be produced in paying quantities. This agreement shall not terminate upon cessation of production if, within sixty (60) days thereafter, reworking or drilling operations on the communitized area are commenced and are thereafter conducted with reasonable diligence during the period of nonproduction.

(c) The public interest requirement for an approved communitization agreement shall be satisfied only if the well dedicated thereto has been completed for production in the

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communitized formation at the time the agreement is approved or, if not, that the operator thereafter commences and/or diligently continues drilling operations to a depth sufficient to test the communitized formation or establish to the satisfaction of the authorized officer that further drilling or the well would be unwarranted or impracticable. If an application is received for voluntary termination of a communitization agreement during its fixed term or such an agreement automatically expires at the end of its fixed term without the public interest requirement having been satisfied, the approval of that agreement by the authorized officer shall be invalid and no Federal lease shall be eligible for extension under 3107.4 of this title.

(d) The operator shall submit such information as reasonably required by the authorized officer. This information shall include: well log and history of any well drilled in the communitized area; monthly reports of operations; statements of oil and gas sales and royalty.

(e) The communitized area shall be developed and operated as an entirety, with the understanding and agreement between the affected parties that all communitized substances produced therefrom shall be allocated among the leaseholds comprising said area in the proportion that the acreage interest of each leasehold bears to the entire acreage interest committed to the agreement.

Draft Proposed Rules - Unitization

Proposed regulations for unitization

Subpart 3180 - Onshore Oil and Gas Unit Agreements: General

3180.0-1 Purpose.
3180.0-3 Authority.
3180.0-5 Definitions.

Subpart 3181 - Application for Unit Agreement

3181.1 Agreement Form and Preliminary Consultation.
3181.1-1 Unit area.
3181.1-2 Development Requirements.
3181.1-3 Participation.
3181.1-4 Unitized Formations.
3181.1-5 Multiple Unit Operators.
3181.1-6 Modifications to the Unit Agreement.
3181.2 General terms.
3181.2-1 Federal Production Allocation.
3181.2-2 Unit Operations.
3181.2-3 Participation.
3181.2-4 Unit Termination.
3181.2-5 Participating Area Termination.
3181.2-6 Drainage.
3181.2-7 Leases and Contracts Conformed and Extended.
3181.2-8 Suspensions and Extensions.
3181.3 Inclusion of Indian lands.
3181.4 Parties to Unit Agreement.
3181.5 Other Agreements.

Subpart 3182 - Filing and Review of the Agreement

3182.1 What to File.
3182.2 Review of the Agreement.
3182.3 Participating Area.
3182.4 Non-Unit Wells.

Subpart 3183 - Appeals

3183.1 Appeals.

Subpart 3180 - Onshore Oil and Gas Unit Agreements: General

3180.0-1 Purpose.

The regulations in this part prescribe the minimum requirements to be met by the owners of any right, title or interest in Federal oil and gas leases and their representatives who wish to unite with each other, or jointly and separately with others, in collectively adopting and operating under a unit plan for the development of any oil or gas pool, field or like area, or any part thereof. Unitization must be for the purpose of conserving the natural resources and be necessary or advisable in the public interest, to provide for the most economical and efficient recovery of said substances without waste, and must be approved by the authorized officer.

3180.0-3 Authority.

These regulations are issued under the authority of the Mineral Leasing Act, as amended and supplemented (30 U.S.C. 181, 189, 226(e) and 226(j)), and Order Number 3087, dated December 3, 1982, as amended on February 7, 1983 (48 FR 8983), under which the Secretary consolidated and transferred the onshore minerals management functions of the Department, except mineral revenue functions and the responsibility for leasing of restricted Indian lands, to the Bureau of Land Management. The administration of the regulations of this part shall be under the jurisdiction of the authorized officer of the Bureau of Land Management.

3180.0-5 Definitions.

The following terms, as used in this part or in any unit agreement approved under the regulations in this part, shall have the meanings here indicated:

Committed Federal lease. A Federal lease is considered committed to the unit when all lessees and all working interest owners have committed to the unit agreement.

Federal lease. An oil and gas lease issued under the regulations in part 3100 of this title.

Participating area. The land that shares in production allocation based on surface acreage. A participating area may be specific to separate zones, deposits, formations or areas and must be defined in the terms of the unit agreement.

Productivity criteria. Characteristics of a well which demonstrates production sufficient to persuade a reasonable operator to continue development outside of any participating area(s) and which warrants continued production of the well. The productivity criteria for all wells in the unit area are defined in the terms of the unit agreement.

Unit area. All tracts committed to the approved unit.

Unit operator. Any person or entity who has stated in writing to the authorized officer that it is responsible under the terms and conditions of the unit agreement for the operations conducted thereof.

Unitized substances. Oil and gas production which meets productivity criteria and all oil and

gas production from established participating areas.

Working Interest. A working interest for unitization purposes includes any interest held in unitized substances which is vested with the right to explore for, develop, and produce such substances. The rights delegated to the unit operator are not regarded as working interest.

Subpart 3181 - Application for Unit Agreement

3181.1 Agreement Form and Preliminary Consultation.

Any agreement form may be used as long as adequate provision is made for protection of Federal interests and the proposed agreement is in conformance with all applicable laws and regulations. The authorized officer may provide assistance to unit proponents prior to submission of an application. The unit agreement must define the following: unit area, development requirements, participation and unitized formations. The unit operator also has the option to include provisions for multiple unit operators and modifications. The authorized officer has approval authority on all aspects, individually or collectively, of the terms and conditions of the unit agreement and any subsequent modifications.

3181.1-1 Unit Area.

The unit area must be well defined, contiguous, and must be larger than an area suitable for communitization. The size of the unit may be limited by the authorized officer.

3181.1-2 Development Requirements.

The unit agreement must require the drilling of at least one new well and promote the subsequent development of the unit area.

(a) Initial Unit Obligations.

Subsequent to unitization, the operator must: (1) drill a new well which establishes unitized production, or (2) drill test well(s) to the primary target as required by the authorized officer, or (3) establish to the satisfaction of the authorized officer that further drilling of such well(s) would be unwarranted or impracticable. The number of wells required, a primary target for each, and the timeframe for commencing drilling operations continued diligently to completion must specifically be defined in the unit agreement. The initial obligation well(s) must be located such that at least one Federal lease or unleased Federal tract would share in any production allocation from each well.

(b) Continuing Development Obligations.

Once the initial unit obligations have been met, additional development is required. Operations which meet this requirement include: drilling additional wells which test the primary target, drilling additional wells which establish production of unitized substances; recompletions which establish unitized production; drilling existing wells to a deeper target; and drilling and completing wells which contribute to the productivity of the unit. Development operations to meet this requirement can be either within or outside a participating area. The time between

the commencement of operations of one action to the commencement of operations of the next must be specified in the agreement. Upon failure to meet the continuing development obligations, the unit shall automatically contract to established participating areas, effective the first of the month of the date the operations were required to be commenced.

3181.1-3 Participation.

(a) Productivity Criteria.

The agreement shall set out the standards by which wells shall be deemed sufficient to cause establishment or revision of a participating area.

(b) Participating Area Size.

The agreement shall define the predetermined acreage and area to be included within an initial participating area. Each addition to an existing participating area must be of similar size as the participating area initially established for that zone, formation or deposit.

(c) Initial Participating Area.

The first well drilled subsequent to unitization that meets the established criteria causes the establishment of a participating area. At the time of establishing the first participating area, lands which contain previously existing wells meeting the productivity criteria are also added to the initial participating area or shall establish additional participating areas, as determined by the criteria set out in the agreement.

(d) Revision or Establishment of New Participating Areas.

As determined by criteria set out in the agreement, additional development meeting the productivity criteria will: (1) require addition to an existing participating area, (2) require establishment of a new participating area, or (3) cause no change to the existing participating area.

3181.1-4 Unitized Formations.

The agreement will include all formations, zones, or deposits unless specifically defined otherwise.

3181.1-5 Multiple Unit Operator(s).

If it is the intent of the parties to the unit agreement to have multiple unit operators, the terms of the unit agreement must specifically define the following:
(1) When additional operators are acceptable;
(2) Responsibilities of respective parties, including bonding, obtaining approvals, reporting, paying Federal royalties and conducting operations;
(3) Liability coverage through bonding;
(4) Provisions for default by one or more unit operators;
(5) An operator to be responsible for any unit obligations not specifically addressed in the unit

agreement;

(6) Approval authority of the authorized officer for acceptance of additional operators.

3181.1-6 Modifications to the Unit Agreement.

(a) Additional Tracts.

Unit terms must include a provision for the inclusion of additional committed tracts to the unit. Changes to the unit or commitment status of any tract will require the submission of revised map(s), committed tract listing(s) and allocation schedule(s).

(b) Provisions for Modifications.

No changes may be made to the agreement unless provisions for modifying the agreement are specifically covered in the unit agreement. The agreement must identify the interests that must agree to such changes prior to approval by the authorized officer. All proposed changes must meet the requirements of subpart 3181 of this title.

(c) Effective Date.

The effective date of any changes shall, if approved, be effective on the date of a complete filing of the necessary information with the authorized officer.

3181.2 General Terms.

3181.2-1 Federal Production Allocation.

(a) Allocation Within Participating Areas.

For Federal royalty purposes, production shall be allocated within participating areas on a surface acreage basis for all unitized lands. Unleased Federal lands, if any are within the participating area, shall be included in the total acreage of the participating area, and shall receive production allocation for royalty purposes as if the unleased lands were leased and committed to the agreement. The value of the production subject to the payment of royalty shall be determined pursuant to 30 CFR part 206. The allocation schedule must be submitted to the authorized officer with the application for the establishment or revision of a participating area, and when required by the authorized officer.

(b) Royalty Rates on Sliding and Step-Scale Leases.

For leases on which the royalty rate depends on the daily average production per well, the average production shall be determined in accordance with the operating regulations as though the participating area was a single consolidated lease.

3181.2-2 Unit Operations.

(a) Obligations of the Unit Operator.

The unit operator must accept the duties and obligations of meeting the terms of the unit agreement and the requirements of the Federal laws, regulations, Onshore Orders and orders of the authorized officer.

(b) Unit Operations.

All operations conducted by the unit operator under the agreement are defined as unit operations. Drilling and operation of any well within an existing participating area shall be considered unit operations. No unit operations, whether on Federal or non-Federal lands, may be commenced without proper bonding as required in subparts 3104 and 3106 of this title. All regulations in part 3160 of this title relating to site security, measurement, reporting of production and operations, and assessments or penalties for noncompliance with such requirements are applied to all wells and facilities on State and privately owned mineral lands committed to a unit which affects Federal or Indian interests. Rentals and royalties due for any Federal lease committed to the unit agreement shall be subject to the regulations in subpart 3103 of this title and 30 CFR Group 200.

(c) Non-Unit Operations.

Non-unit operations may occur within the boundary(ies) of an approved unit after notification to the authorized officer, and are to be conducted under the terms of the underlying lease, contract or agreement. The royalties from any such well shall be paid and reported as specified in the underlying lease and agreement affected.

(d) Change of Unit Operator.

The unit operator shall continue to be responsible for all duties and obligations of the unit agreement until such duties have been assumed by another operator, and the new operator is covered by adequate bonding. The change of the unit operator shall not release the previous unit operator from any liability for any default by it occurring prior to the effective date of the change.

(e) Rate of Development and Production.

The authorized officer has the authority to set or modify the quantity and rate of development and production under the unit agreement. This authority is limited to alterations or modifications which are in the public interest.

3181.2-3 Participation.

(a) Area Description.

All participating areas must conform to aliquot parts of the rectangular survey system, unless such system is unavailable.

(b) Development Within a Participating Area.

Production from additional development within a participating area in the zone covered by the participating area shall be allocated to the existing participating area and will not cause revision.

(c) Non-participating Wells.

Wells outside a participating area, or within a participating area to a zone or formation not covered by the participating area, that do not meet the established productivity criteria shall be operated on a lease basis and any production therefrom shall not be considered unitized substances.

(d) Inclusion of Unleased Federal Lands.

Whenever a participating area includes unleased Federal lands, the value of 12½ percent of the production allocated to such lands shall be payable as compensatory royalty to the Federal Government. Payment of compensatory royalties shall accrue from the date the committed tracts in the participating area that includes unleased Federal lands receive a production allocation or from the date the Federal lands become unleased, whichever is later. Payment shall be due and payable monthly by the last day of the calandar month next following the calendar month of actual production.

3181.2-4 Unit Termination.

(a) Voluntary Termination.

The unit may be voluntarily terminated at any time prior to the discovery of production sufficient to establish a participating area, by certification that not less than 75 percent on a surface acreage basis of the working interest owners in the agreement agree to the termination, with the approval of the authorized officer.

(b) Failure to Meet Continuing Development Obligations.

Upon failure to meet the continuing development obligations prior to the establishment of participating areas, the unit will terminate automatically effective the day after the date the continuing development obligations were required to be commenced.

(c) Termination of Last Participating Area.

After establishment of a participating area, the agreement shall remain in effect after contraction for so long thereafter as at least one participating area remains in effect. The unit shall terminate on the termination of the last participating area of the unit.

3181.2-5 Participating Area Termination.

A participating area will remain in effect until the unit is contracted. After contraction of the unit, a participating area shall terminate effective 60 days from a determination by the

authorized officer that there is insufficient production to meet operating costs of the participating area, unless:

(1) operations to restore production or establish new production are in progress within 60 days, and diligently carried out to completion, and production sufficient to meet operating costs is restored or established, or

(2) the operator can demonstrate that one or more wells within the participating area are capable of producing in quantities sufficient to meet operating costs.

3181.2-6 Drainage.

The unit operator shall take such measures as the authorized officer deems appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement, which shall include the drilling of protective wells and which may include the payment of compensatory royalty, as determined by the authorized officer.

3181.2-7 Leases and Contracts Conformed and Extended.

(a) Operations on Individual Tracts.

The development and operation of lands subject to a unit agreement shall be deemed full performance of all obligations for development and operation with respect to each and every separately owned tract subject to the agreement, regardless of whether there is any development of any particular tract of the unit area.

(b) Federal Surface Management Agency Stipulations.

Nothing in a unit agreement shall modify the special Federal lease stipulations required by any Federal surface management agency.

(c) Covenants Run with the Land.

The covenants of the unit agreement shall be construed to be covenants running with the land with respect to the interests of the parties to the agreement and their successors in interest until the agreement terminates, and any grant, transfer or conveyance of interest in land or leases subject shall be conditioned upon the assumption of all privileges and obligations under the agreement by the grantee, transferee, or other successor in interest. No assignment or transfer of any working interest, royalty or other interest shall be binding upon unit operation until the first day of the calendar month after the unit operator is furnished with evidence of the transfer.

3181.2-8 Suspensions and Extensions.

(a) Authority to Grant Extensions.

The authorized officer may, when requested by the unit operator under extreme circumstances, modify any of the development requirements of this section by granting reasonable extensions

of time.

(b) Force Majeure.

All obligations under this agreement requiring the unit operator to commence or continue drilling, or to operate on, or produce unitized substances from any of the lands covered by this agreement, shall be suspended while the unit operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part, by acts of God, Federal, State, or municipal law or agencies, strikes, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials or equipment in the open market, or other matters beyond the reasonable control of the unit operator.

(c) Suspension of Drilling or Producing Operations.

Suspension of drilling or producing operations on all unitized lands pursuant to direction or consent of the authorized officer shall be deemed to constitute such suspension pursuant to such direction or consent as to each and every tract of unitized land. However, a suspension of drilling or producing operations limited to specified lands shall be applicable only to such lands.

3181.3 Inclusion of Indian lands.

When Indian lands are included, modification of the unit agreement will be required where appropriate. Approval by the Bureau of Indian Affairs, or by any party so delegated by the Secretary with approval authority, must be obtained prior to approval by the authorized officer for any agreement containing Indian lands.

3181.4 Parties to Unit Agreement.

The unit operator, in the application for unitization, must certify that the appropriate interest owners for the area described in the application have been invited to join the unit, and that there are sufficient tracts committed to the agreement for unitization within the proposed area for control of the area. A summary of results of invitations to join the unit and written reason for all interest owners who have not joined shall be kept by the unit operator or his designated agent and shall be made available to the authorized officer when required. The unit operator must certify that the Federal lessees and working interest owners have committed their respective tracts to the unit agreement. The unit operator must certify the commitment status of any non-Federal tract. Any changes to the commitment status of any tract within the unit will require submittal of a revised map and listing of committed tracts.

3181.5 Other Agreements.

Only those terms required in this subpart may be included in the unit agreement. All other provisions shall be set out under separate agreement. No other agreement shall be deemed either to modify any of the terms and conditions of the unit agreement or relieve the unit operator of any right or obligation established under the unit agreement. In case of any inconsistency or conflict between the unit agreement and any other agreement, the unit agreement shall govern. The unit operator or his designee shall make such ancillary

agreements available for inspection to the authorized officer as required.

Subpart 3182 - Filing and Review of the Agreement

3182.1 What to File.

The following documents must be included in an application for unitization: the proposed agreement; map showing unit area and non-committed tracts; listing and certification of committed tracts; and certification of unit operator acceptance of unit obligations. The number of copies to be submitted shall be prescribed by the authorized officer.

3182.2 Approval of agreement.

(a) Notification and Effective Date.

The authorized officer shall promptly notify the unit operator in writing of the approval or disapproval of the proposed unit agreement. The effective date of the agreement shall be the date of approval by the authorized officer. The unit operator shall notify all parties to the agreement of such approval or disapproval.

(b) Public Interest Requirement.

The public interest requirement of an approved unit agreement for agreements under this part shall be satisfied only if the unit operator commences actual drilling operations and thereafter diligently prosecutes such operations in accordance with the Initial Unit Obligations term of said agreement. If an application is received for voluntary termination of the unit agreement prior to the commencement of such operations or such an agreement automatically expires at the end of its initial drilling obligation period without the public interest requirement having been satisfied, the approval of that agreement by the authorized officer and lease segregation and extensions under 3107.3-2 of this title shall be invalid, and no Federal lease shall be eligible for extensions under 3107.4 of this title.

3182.3 Participating Area.

Within 60 days of establishing unitized production, the unit operator shall submit certification that unitized production has been established; a map showing the participating area and total acreage; and a schedule showing production allocation for all Federal leases participating in production. The authorized officer may require additional data as needed.

3182.4 Non-unit Wells.

Within 60 days of establishing production that does not meet the productivity criteria set out in the unit agreement, the unit operator must submit certification that such wells will be operated, produced and reported on a lease basis.

Subpart 3183 - Appeals

3183.1 Appeals.

(a) State Director Review.

A State Director review of the decisions of the authorized officer under this part may be requested by the unit operator, for all parties to the unit agreement, pursuant to 3165.3 of this title.

(b) Appearances.

The unit operator shall, for all parties to the unit agreement, have the right to appear before the authorized officer, and to apply for relief from any of the applicable regulations, lease or unit terms, or orders of the authorized officer.

Attachment G

DRAFT

Instruction Memorandum

To: State Directors

From: Director

Subject: Bioremediation of Oil Spills and Waste Oils at Federal Leases

The recently completed Bureau Performance Review (BPR) of the Oil and Gas Program, recommended on-site bioremediation of incidental oil spills and other waste oils as a possible environmentally acceptable means of disposal. An economical, safe means of on-site treatment of spills and waste oils would reduce potential liabilities at disposal sites and facilitate oil and gas development.

The National Contingency Plan (NCP) requires approval of each bioremediation treatment. However, pre-approval of an agency process by the Federal On-scene Coordinator, Regional Response Team and Natural Resource Trustees (collectively referred to herein as RRT) would comply with the Oil Pollution Act and NCP. BLM, Colorado has accomplished this task. In cooperation with the Department of the Interior, Office of Environmental Policy and Compliance (OEPC), BLM has obtained pre-authorization of an oil spill bioremediation program on Federal leases from RRT, Region VIII. A copy of the Colorado procedures is attached.

Each BLM State Office with significant oil and gas activities should develop a similar bioremediation program for pre-approval by appropriate RRTs by _____, 199_. Individual programs should be flexible enough to accommodate local conditions specific to crude oils and environmental conditions of an area. The programs should also be compatible with any existing Standards and Resource Management Plans. Other items to be considered during program development include waste oil determinations pursuant to Onshore Oil and Gas Orders 3 and 4, and compliance with the National Environmental Policy Act.

Director

Attachment H

DRAFT

Instruction Memorandum

To: State Director, Wyoming

From: Director

Subject: Environmental Compliance Self-Certification at Oil and Gas Leases in the Buffalo Resource Area

The recently completed Bureau Performance Review (BPR) of the Oil and Gas Program, recommended environmental compliance self certification by operators as an incentive that would facilitate economics, encourage environmental protection, and assist the BLM in meeting oil and gas environmental inspection obligations. The Incentives Team of the BPR effort determined that a pilot test of such a self-inspection program would help determine the feasibility of adopting this approach nationwide. Attachment 1 contains the final report and action plan for this incentive.

Through the BPR Incentives Team outreach efforts in late 1994, The Buffalo Resource Area expressed an interest in participating in a pilot test of an operator conducted environmental compliance self-inspection and certification program. The Resource Area reports a good working relationship with a particular operator that would facilitate pilot test development and they are already drafting self inspection criteria and guidelines.

The BLM, Wyoming should establish an oil and gas/environmental self inspection pilot test with some of the preliminary work completed by the Buffalo Resource Area. It would be desirable to include a cross section of different operators and BLM field offices if possible. However, testing with a single field office/operator should provide some viable test results.

Statewide environmental self inspection parameters and guidelines should be developed, and operators petitioned and selected for participation in the pilot test before the end of FY 95. It would be desirable to begin testing with the start of the FY 96 inspection year to maintain consistency with the Oil and Gas Inspection and Enforcement Strategy. Monitoring of the pilot test should be conducted on a regular basis so that adjustments can be made during testing.

The pilot test should be conducted for a minimum of one year. A review and analysis of the initial pilot period should be forwarded to the National Inspection and Enforcement Task Force by _____, 1996.

Attachment H

DRAFT

Instruction Memorandum

To: State Director, Wyoming

From: Director

Subject: Environmental Compliance Self-Certification at Oil and Gas Leases in the Buffalo Resource Area

Attachment I

Draft Suggestions on Ecocredits

Best Operating Practice Program
"BOPP"

- Criteria
  - Reward operators who voluntarily exceed requirements, go "beyond compliance" and set a standard for others to follow.
  - Establish qualification criteria.

- Administration
  - Resource Area (field) level.
  - Operator would apply for rental/royalty credits on a lease/unit basis.

- Rules
  - Royalty rate reductions.
  - All wells in lease/unit must qualify.
  - Determine term of reductions, (subject to renewal?)
  - No limit

- Economic Implications
  - Would impact rental/royalty reduction, but treasury income losses would be offset by environmental enhancement and resource conservation.

ECOSYSTEM ENHANCEMENT PROGRAM
"EEP"

- Criteria
  - Voluntary participation by companies to undertake identified ecosystem enhancement projects.

-Administration
  - Habitat acreage improvement values assignments made on a case by case basis. (Use project budget estimates? Is this an appraisal issue? Consider $ value vs. acreage for credits?)
  - Develop a system of "banking" credits earned.
  - Companies could use credits toward other lease administration costs, lease sales, etc.
  - Develop annual report of "banked" credits.

- Rules
  - Establish time limit for use of "banked" credits.
  - Must meet RMP objectives.
  - NEPA compliance.

- Economic implications
  - Revenue neutral, but consistent with ecosystem management.

- Communicate Information
  - Resource areas maintain a list of eligible projects.

- Other
  - Trade credits?

Attachment J

DRAFT

UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
WASHINGTON, D.C. 20240

In Reply Refer To:
3105 (300)

Instruction Memorandum No. 95-
Expires:

To: All SD's

From: Director

Subject: Approval of Operating, Drilling or Development Contracts Authorized by 43 CFR 3105.3.

DISTRIBUTION: All States and Field offices with fluid mineral programs.

OBJECTIVE: In order to encourage oil and gas exploration and to promote development in the interest of conservation, the moratorium on the approval of operating, drilling or development contracts is hereby terminated. The moratorium was placed upon the approval of such contracts by I. M. WO-89-442 pending a General Accounting Office (GAO) review of Interior's use of Oil and Gas Development Contracts final report. This report (GAO/RCED-91-1) was issued September 17, 1991 as Mineral Resources Interior's Use of Oil and Gas Development Contracts.

BUREAU POLICY: The onshore oil and gas performance review for incentives identified developing a clear policy on approval of development contracts as an important objective. The intent of this policy is to encourage exploration upon relatively unexplored lands and to thereby increase the oil and gas resource knowledge base for those lands.

Development contract proposals should follow the general guidelines contained in The Oil and Gas Development Contract Task Force Report dated March, 1988 (see attached) with the following exceptions:

1. The contract language should clearly state that the Secretary of the Interior or his designate are not a party to the contract.

2. More than one lessee must enter into the contract.

IMPLEMENTATION AND SCHEDULE: This policy is effective immediately.

BUDGET IMPLICATIONS: Minimal.

COORDINATION: None.

CONTACT PERSONS: Questions may be addressed to _____.

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